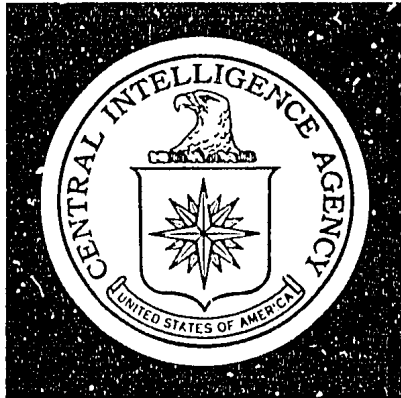


Approved For Release
2009/10/06 :
CIA-RDP85T00875R00160001

Approved For Release
2009/10/06 :
CIA-RDP85T00875R00160001

Secret

DOC/SER



DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

*India: Some Implications
of Moscow's Large Rupee Holdings*

Secret

ER IM 68-85
July 1968

Copy N^o

69

WARNING

This document contains information affecting the national defense of the United States, within the meaning of Title 18, sections 793 and 794, of the US Code, as amended. Its transmission or revelation of its contents to or receipt by an unauthorized person is prohibited by law.

GROUP 1 Excluded from automatic downgrading and declassification

SECRET

25X1

CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
July 1968

INTELLIGENCE MEMORANDUM

India: Some Implications
of Moscow's Large Rupee Holdings

Summary

India is now Moscow's leading trading partner of all the less developed countries of the Free World, and much of this trade is generated by Moscow's military and economic aid program. During 1955-67, about 65 percent of India's imports from the USSR were economic and military aid deliveries, and about 45 percent of exports were for economic and military debt repayment. Although India is not in arrears on repayment of Soviet military and economic credits, the merchandise trade balance* has generally been in Moscow's favor. As a result, the USSR has accumulated substantial holdings of rupees which can only be spent on Indian goods and services. These rupee holdings, probably now the equivalent of as much as \$350 million, increased sharply in 1967 and are likely to go higher.

Recent efforts by the USSR to achieve sharp increases in its purchases of Indian goods reflect Moscow's growing concern with New Delhi's mounting commercial payments deficit in trade between the two countries. Soviet interest in stepping up imports

** This is normal commercial trade and excludes deliveries of economic and military aid goods and commodities shipped in repayment of aid.*

Note: This memorandum was produced solely by CIA. It was prepared by the Office of Economic Research and was coordinated with the Office of Strategic Research, the Office of Current Intelligence, and the Office of National Estimates.

SECRET

25X1

SECRET

from India was highlighted during Premier Kosygin's January visit; afterwards, a number of Soviet missions to India concluded several trade contracts and began negotiations on others.

Moscow has agreed to increase purchases of Indian steel and railroad cars. The USSR may buy 10,000 Indian railroad cars per year, but substantial deliveries will not begin before about 1970. Moscow, however, would also like to increase its imports of the type of goods that India now sells to the West for hard currency. Indian negotiators, however, will probably insist that Moscow restrict its additional purchases to engineering and industrial goods and will not agree to pay the Soviet trade debt with the same goods as those exported to the West for hard currency. Although Indian exports to the USSR will increase, it seems likely that Moscow will have to continue to build up its rupee holdings until at least 1970, and the USSR's holdings will decline after that date only if it begins purchasing greatly increased numbers of Indian railroad cars.

SECRET

SECRET

Background

1. Published Indo-Soviet trade statistics include aid transactions -- Indian exports to the USSR to repay economic and military debts and Soviet exports under long-term economic credit agreements -- and normal commercial-type transactions. Soviet statistics, however, do not explicitly include military deliveries. If the aid shipments and repayments are excluded, the remaining merchandise trade balance has continuously been in Moscow's favor. As a result, India has experienced a substantial deficit, which probably has been financed by transferring rupees to Moscow's trade account. Indian press statements which imply that India has generally maintained a favorable balance in its trade with the USSR are misleading because they frequently ignore the fact that exports are used in part to repay existing Soviet credits and are based on Indian trade statistics which generally exclude all aid deliveries from imports.

2. India now is the USSR's largest trading partner of all the Free World less developed countries. Total trade increased rapidly from only about \$12 million in 1955 to about \$375 million in 1967. The composition of Indian exports to the USSR, however, has changed very little and consists essentially of the same types of goods India also exports to the West. Moscow has not increased purchases of Indian engineering and industrial goods significantly. The composition of India's imports from the USSR has not changed drastically: machinery and equipment continue to make up over 50 percent of imports; the share of metals and manufactures has declined and the share of petroleum products has increased (see Figure 1).

Soviet Aid and Indian Repayments

3. For several years, Soviet economic aid deliveries have accounted for a substantial, although declining, share of Indian imports. On the other hand, an increasingly large share of India's exports are used to make scheduled economic and military debt repayments. During the six years 1960-65, aid deliveries accounted for 48 percent of India's imports from the USSR, but the proportion fell to

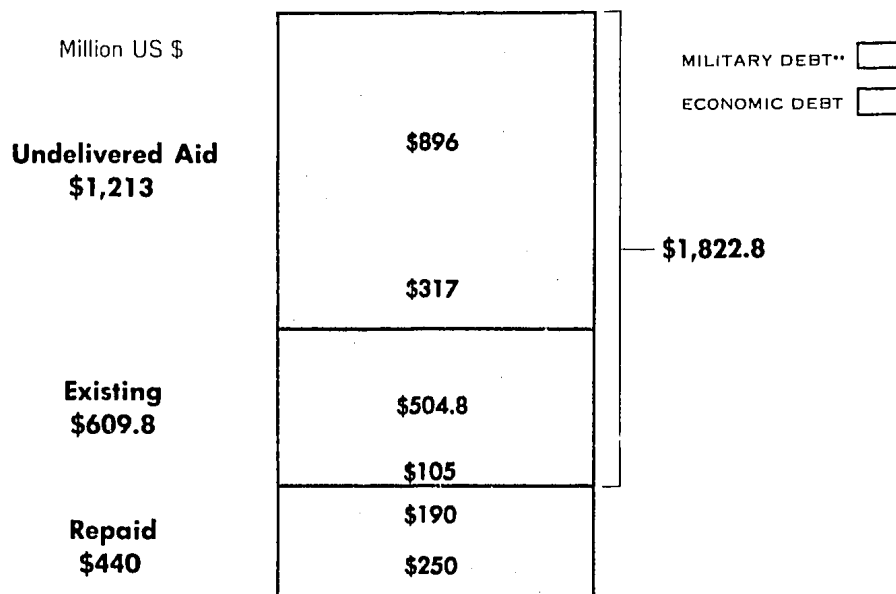
SECRET

SECRET

an average of 27 percent during 1966 and 1967. Military and economic repayments, which averaged 43 percent of India's exports during 1960-65, reached a record 60 percent during the last two years (see Figure 2). As a result of past aid deliveries alone, India now owes the USSR about \$600 million (excluding interest). Exports of Indian goods over the next year or two at the rate of about \$140 million* will be used to repay part of the military and economic debt to the USSR. Moreover, while India is repaying current debt, additional debt is accruing because about \$900 million in economic aid and \$320 million in military aid remains to be delivered under the current Soviet aid program (see Figure 3).

25X1

[] Figure 3
INDIAN AID DEBT TO THE USSR AS OF 1 JANUARY 1968*



*Excluding interest and grant aid.

**Including all down payments and cash sales, except for \$10 million of the \$20 million downpayment on the 1965 \$100 million credit for naval equipment.

59363 7-68 CIA

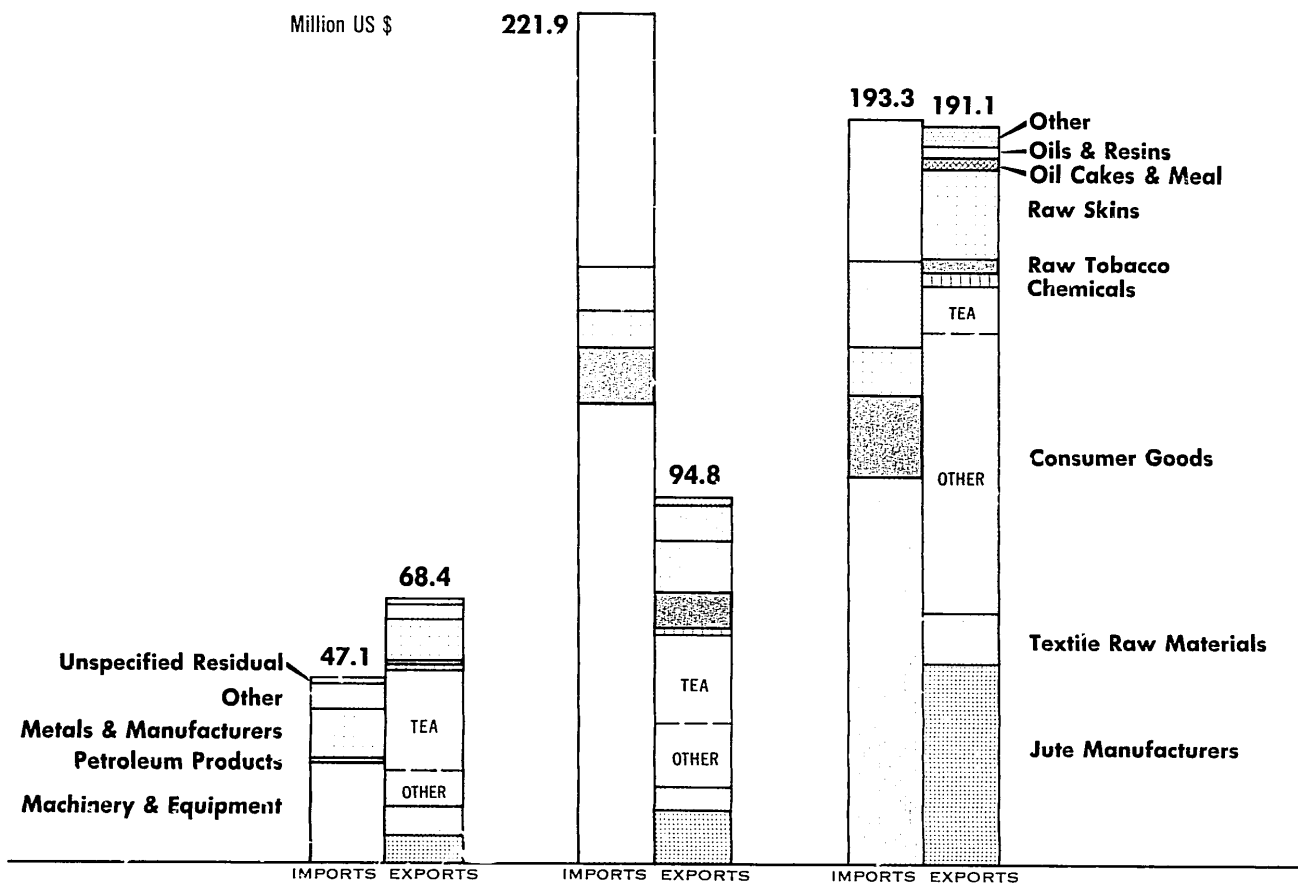
25X1

* Including principal and interest.

SECRET

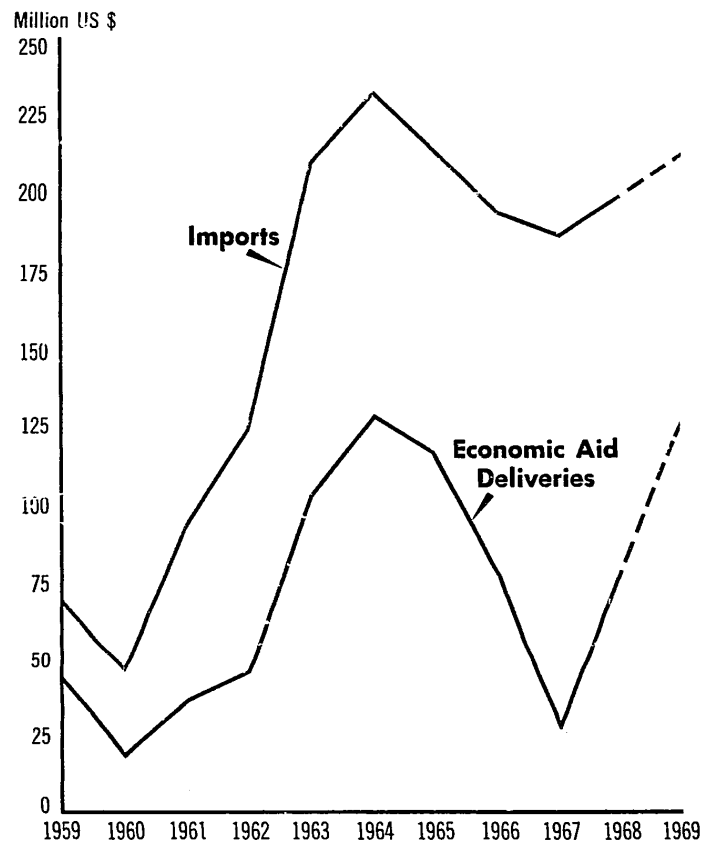
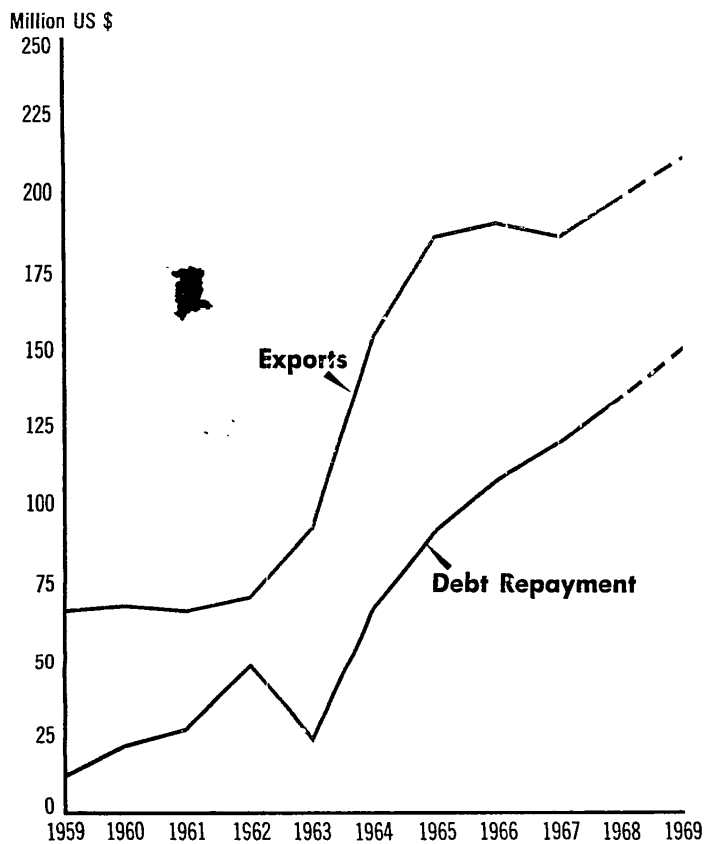
INDIA: PERCENTAGE COMPOSITION OF TRADE WITH THE USSR, 1960, 1963, AND 1966

Figure 1



**INDIA: DEBT REPAYMENT AND SOVIET AID AS A SHARE
OF INDO-SOVIET EXPORTS AND IMPORTS, 1959-69**

Figure 2



SECRET

4. Soviet economic aid to India under long-term credits amounts to about \$1.6 billion, of which about \$700 million has been delivered. Economic aid deliveries averaged more than \$115 million per year during 1963-65. Because of India's industrial recession, New Delhi was unable to finance its share of scheduled Soviet aid projects. As a result, Soviet aid deliveries fell sharply in 1966 and 1967, averaging only about \$50 million per year, which was less than economic aid repayments. Soviet military aid to India (including cash sales) amounts to about \$670 million, of which some \$350 million has been delivered.

5. Economic aid deliveries probably will increase in 1968 but will not exceed economic debt repayment by very much. Indian economic debt repayment to the USSR has steadily increased since the aid program began, reaching \$55 million in 1967, and will probably continue to rise each year until it reaches a peak of about \$75 million in 1971. Military debt repayment to the USSR averaged some \$60 million per year during 1965-67. Annual repayments, however, will reportedly increase sharply to about \$90 million in 1970. Military and economic debt repayments, which will probably account for about 70 percent of India's exports to the USSR this year, are shown in the following tabulation:

Million US \$			
<u>Year</u>	<u>Economic Debt Repayment</u>	<u>Military Debt Repayment</u>	<u>Total</u>
1968	55	80	135
1969	58	85	143
1970	65	90	155
1971	75	N.A.	N.A.
1972	68	N.A.	N.A.

Balance of Payments

6. India has consistently had a balance-of-payments deficit with the USSR. Excluding Soviet aid deliveries and Indian shipments to repay debt, imports from the USSR have regularly exceeded exports. During 1955-67 the USSR probably built up substantial rupee

SECRET

SECRET

holdings, estimated at between \$170 million and \$350 million.* Soviet rupee accumulations were derived from balance-of-payments computations shown in the Table, based principally on published trade and aid delivery data, with estimates only of freight charges and debt repayments. Other data that would also affect the balance of payments such as Soviet expenditures on embassy operations and expenditures on technicians are not available. These expenditures, however, would not reduce Soviet rupee holdings by very much.

7. Although Soviet export statistics include all economic aid deliveries to India, it is clear that they do not include all military aid deliveries, although they may include some. For example, during the period 1955-66 Soviet export statistics contain an unidentified residual which totaled about \$150 million. This residual could represent some military aid deliveries. If it does, the estimate of Soviet rupee holdings on commercial accounts of about \$250 million at the end of 1966 would be reduced by about 60 percent.** In 1967 the estimated

* Whereas mutually agreed upon restrictions have been imposed on the use of the large US claims of more than \$2 billion of Indian rupees which arose principally from massive US surplus food shipments to India under the PL 480 program, there are no such restrictions known on the use of the Soviet accumulated rupees.

** Although the annual unidentified residual in Soviet export statistics generally paralleled the sharp increase in Soviet military deliveries to India that occurred during the 1961-65 period, the relationship did not hold for 1966. In that year, the unidentified export residual was about \$130 million less than military aid deliveries. Moreover, during the 1955-66 period, the total unidentified Soviet export residual was at least \$200 million less than Moscow's military deliveries to India. A similar examination of Soviet export statistics concerning Indonesia and the UAR -- both of which have also received substantial military deliveries from the USSR -- shows that the unidentified Soviet export residual to each of these countries was much too small to account for military shipments.

SECRET

SECRET

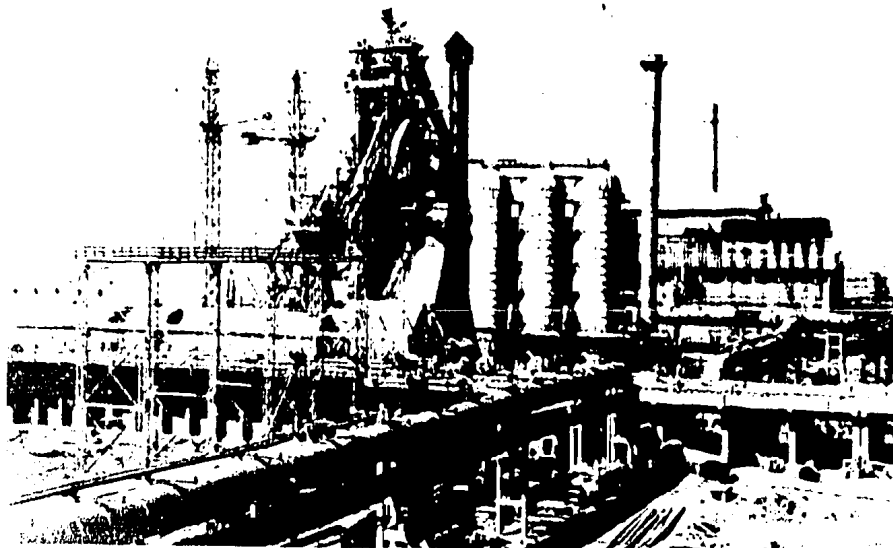
annual increase in Soviet rupee holdings was the highest ever -- about \$100 million. If some \$30 million in military deliveries in 1967 are included in the Soviet export data, Soviet rupee holdings would increase by only about \$70 million. Therefore, Soviet rupee holdings at the end of 1967 were about \$350 million if military deliveries are not included in the Soviet export data and \$170 million if military deliveries are included. On balance, it seems likely that Soviet military deliveries are not included in the residual.

Recent Efforts to Increase Trade

8. Although neither Moscow nor New Delhi has acknowledged Soviet rupee holdings, their behavior is consistent with the existence of large Soviet rupee holdings. Moscow apparently is increasingly concerned with this mounting trade debt which rose sharply in 1967. When Soviet Premier Kosygin visited India in January 1968, he found some Soviet-aided projects operating below 30 percent of capacity because of slack demand.

25X1

The USSR as early as April 1967 had agreed to purchase 100,000 tons of steel, valued at more than \$8.5 million, from the Soviet-built Bhilai steel mill.



Soviet-Aided Bhilai Steel Plant

SECRET

9. Following Kosygin's visit, a number of Soviet delegations arrived to review the operations of certain Soviet projects and to examine the prospects for purchasing more Indian goods. As a result, the USSR agreed on 12 February 1968 to purchase 600,000 tons of steel valued at about \$52 million in addition to the 100,000 tons contracted for in 1967. Moscow also ordered iron ore valued at \$9 million. The steel supplied by the Bhilai Steel Plant was to be delivered during 1968-70 with the first shipment of some 200,000 tons valued at about \$17 million scheduled for delivery in 1968. It was also widely publicized that the USSR would place an immediate order for 10,000 Indian railroad cars. According to a protocol signed on 13 March, however, Moscow will purchase only 2,000 cars for delivery next year, with the number rising to 10,000 annually by 1972-73. India, however, is attempting to obtain a firm five-year contract reportedly valued at \$675 million to supply the USSR with 50,000 railroad cars by 1975.* These would be gondola-type general-purpose open freight cars built to Soviet specifications. It is far from certain, however, that India can meet the exacting Soviet railroad car standards which have been submitted to them.

10. A high-level Soviet delegation visiting India in April 1968 was charged with appraising the financial feasibility of establishing Indo-Soviet joint industrial projects devoted to producing goods for export to the USSR. The delegation was also concerned with increasing Soviet exports from India. Following lengthy discussions, Indian and Soviet officials agreed to conduct detailed studies and to make specific recommendations by October 1968. Thus it appears that no new Soviet agreements to import substantial quantities of Indian industrial goods are likely before the end of the year.

11. The USSR still seeks to purchase some additional heavy industrial goods from India, especially goods that will lead to increased production by those

* *In the 1968 Indo-Soviet trade agreement concluded in December 1967, only \$7 million was allocated to Soviet imports of all engineering goods.*

SECRET

SECRET

public sector industries constructed with Soviet aid, but probably not in as large quantities as initially reported. Moscow now seems to be backtracking somewhat from the initial widely publicized offers, and in recent negotiations has questioned India's capacity to deliver.

12. The USSR will probably now try harder to increase imports of the traditional Indian goods -- tea, jute products, and leather goods -- that are also sold to the West for hard currency. India, however, is not anxious to repay its debt with increased exports of these items, because it would mean diverting exports from the West. Moreover, these sales will not benefit the Indian economy as much as sales of heavy industrial and engineering goods, which would give a spurt to the Indian economy by boosting industrial output and providing employment where plants have been operating well below capacity. To offset any increased Soviet purchases of traditional exports, India is trying to increase its imports from the USSR of scarce materials such as copper, nickel, phosphates, fertilizer, and sulphur to increase industrial and agricultural output. Although the USSR has generally resisted such efforts, India has obtained a record 250,000 tons of fertilizer valued at \$13.3 million for delivery this year, about \$5 million more than in 1967.

Prospects

13. There is little chance that the USSR will reduce its rupee holdings in India by very much before 1970. Indeed, these holdings are almost certain to increase, except in the unlikely event that Indian exports to the USSR increase above current levels faster than the recently concluded agreements indicate. Moreover, India will be facing serious balance-of-payments stringency in the West in the next year or two, and the Indians are unlikely to export to the USSR goods that can be sold in the West.

14. In 1968 Soviet holdings should increase further, as already completed new trade deals will raise India's exports to the USSR by less than \$25 million above present levels. These agreements also

SECRET

SECRET

call for purchases of Indian industrial goods to increase by about \$45 million in 1969, but the increase will be too small to curb the accumulation of Soviet rupees. It may be at least 1970 -- when Moscow may begin purchasing greatly increased numbers of Indian railroad cars -- before Soviet rupee holdings on current account begin to be reduced.

SECRET

India: Estimated Balance of Payments with the USSR
1955-68

	Million US \$									
	<u>1955-59</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u> ^{a/}
Exports, f.o.b.	176.2	68.4	66.9	71.7	94.8	155.9	188.2	191.1	187	200
Imports, f.o.b. ^{b/}	330.4	47.1	95.4	124.8	221.9	231.8	215.0	193.3	187	200
Trade balance	-154.2	+21.3	-28.5	-53.1	-127.1	-75.9	-26.8	-2.2	0	0
Less freight ^{c/}	15.0	1.0	4.0	6.0	11.0	10.0	7.0	6.0	6.0	7
Less debt repayment (principal and interest) ^{d/}										
Economic	26.0	14.5	14.5	15.5	16.5	25.0	34.0	50.0	55.0	55
Military ^{e/}	0	8.0	13.4	32.8	6.8	40.2	59.2	57.6	65.0	80
Deficit	<u>195.2</u>	<u>2.2</u>	<u>60.4</u>	<u>107.4</u>	<u>161.4</u>	<u>151.1</u>	<u>127.0</u>	<u>115.8</u>	<u>126.0</u>	<u>142</u>
Financed by economic aid ^{f/}	140.5	18.4	37.3	46.8	103.5	128.2	116.1	76.7	27.3	80
Indian payments deficit to the USSR ^{g/}	54.7	-16.2	23.1	60.6	57.9	22.9	10.9	39.1	98.7	62

a. Estimated.

b. Excluding military aid.

c. Freight charges are estimated to be about 10 percent of the f.o.b. price of the cargo hauled. It is estimated that Soviet ships haul about 65 percent of the Indo-Soviet trade cargo, with Indian ships hauling the remainder.

d. Reports stating that the Indian debt repayment obligations to the USSR will be \$150 million or so per year in 1968 and 1969 are believed to be based on much higher Soviet aid utilizations than have been achieved.

e. Including all payments for military supplies from the USSR.

f. Excluding economic grants from the USSR because they are not included in the trade data.

g. Equivalent to Indian indebtedness to the USSR on clearing account.

SECRET

- 11 -

SECRET